



County of Los Angeles
CHIEF EXECUTIVE OFFICE

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Chief Executive Officer

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First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

June 4, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

State Budget Update

The Assembly Budget Subcommittees completed their actions on the State Budget on Friday, May 30, 2008. The full Senate Budget Committee and Subcommittees are continuing to conduct hearings this week. As of today, the Senate Budget Committee intends to complete its work by Thursday, June 5, 2008. The Budget Conference Committee will commence its work beginning the week of June 9, 2008.

Significantly, both the Senate and Assembly Budget Committees acted last week to reject the proposed reductions to the Medi-Cal Safety Net Care Pool (SNCP) and the South Los Angeles Preservation Fund. These actions avoided a County loss of \$24.4 million (\$14.4 million for SNCP and \$10 million for the South Los Angeles Preservation Fund). Because both Houses took this action, these two issues would normally not come before the Budget Conference Committee. However, Conferees have the authority to open any item in the Budget regardless of whether it is deemed to be "in Conference."

In addition, both Houses rejected the Administration's proposals to make CalWORKs children ineligible for actions or failure to act by the parents, to eliminate State financial participation in IHSS wages above the minimum wage, and to reduce Child Welfare Services Administration funding. As previously noted, Conferees have the opportunity to open and act on these items with two votes from each House.

State's Cash Flow Situation

On Friday, May 30, 2008, the State Controller's Office held a briefing on the State's cash position. A copy of a handout from the briefing is attached for your reference (Attachment I). As of April 2008, the State had \$15.3 billion of potential internal borrowing available. It is currently estimated that the State will run out of cash and internal borrowing options by mid-September. Based on comments from the Controller's staff, it seems likely that a decision to borrow externally will have to be made sometime around the beginning of August, if the FY 2008-09 State Budget has not yet been enacted.

When cash receipts and internal borrowing are exhausted, it will be necessary for the State Controller, in conjunction with the State Treasurer, to initiate external borrowing. Options for external borrowing include Revenue Anticipation Notes (RANs) and Revenue Anticipation Warrants (RAWs).

RANs and RAWs have different legal and practical constraints which limit their use. RANs are short-term borrowing instruments that are the most common external cash-flow tool employed by the State. RANs have low issuance costs and short issuance times, but they are only used for borrowing within a fiscal year. In addition, the State Budget must be enacted prior to their use. RAWs, on the other hand, can be issued in one fiscal year and repaid prior to the end of the next fiscal year. The State Budget need not be enacted prior to their issuance. However, RAWs are viewed as a "last-resort option" as they take longer to issue (two to four months) and the interest rates and issuance costs are generally higher under the best of circumstances.

The issuance of RAWs is further complicated by several factors. If RAWs are issued without an enacted Budget, the State's credit rating (already the second worst in the United States), structural deficit, and the fact that the State Budget was not enacted prior to the start of the fiscal year will negatively impact their issuance. These circumstances would lead to higher interest rates and issuance costs and create more stringent requirements for credit enhancements (similar to having a co-signer or guarantor). Further, the turmoil and uncertainty in today's credit and liquidity markets that was created by the sub-prime mortgage foreclosure crisis and the accompanying write-off of hundreds of billions of dollars in mortgage loans injects considerable uncertainty as to the availability of borrowable funds and credit enhancements.

The Governor's May Revision includes a \$10 billion RAN, which is larger than any RAN previously issued by the State. The size of the RAN is based on the premise that the Legislature would accept all the Governor's proposed Budget-balancing solutions from January and May. To date, it seems clear that a significant number of the program reductions proposed by the Governor lack sufficient support in the Legislature.

Additionally, the Governor's proposal to expand and securitize the State Lottery, subject to the approval of voters, may not have ample support in the Legislature. The Controller's staff indicated that the contents and shape of the enacted State Budget may still necessitate the issuance of RAWs, even if the State Budget is enacted in a timely manner.

CSAC Conference Highlights

On May 21-22, 2008, the California State Association of Counties (CSAC) held its annual Legislative Conference in Sacramento. Several of the key discussions and presentations focused on the State's budget crisis and potential strategies that will be used in the development of the FY 2008-09 State Budget. In addition, CSAC's Policy Committees held meetings on a wide range of topics of interest to counties. Key actions of the CSAC Board of Directors and an item of interest are discussed in Attachment II.

Status of County Sponsored Legislation

County-co-sponsored SB 579 (Wiggins), which would permit the Board of Supervisors to authorize reinstatement of firefighters who were forced to retire on or after April 1, 2007 because they had reached the age of 60, and remove the mandatory April 1, 2009 retirement date for a Fire Chief in a county of the first class, was signed by the Governor on Monday, June 2, 2008. As an urgency measure, SB 579 (Chapter 21, Statutes of 2008), was effective immediately.

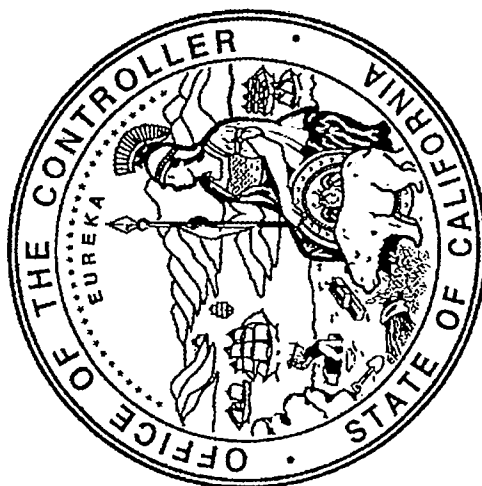
We will continue to keep you posted.

WTF:GK:MAL
DD:IGA:mp

Attachments

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

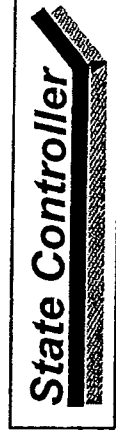
Controller's Cash Briefing California Labor Coalition May 30, 2008



Controller *John Chiang*
California State Controller's Office

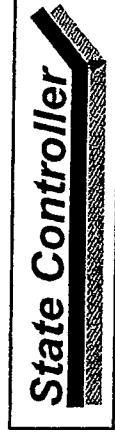
Budget vs. Cash

- “Budget” refers to the financial plan based on estimated revenues and disbursements for the fiscal year and is a primary responsibility of the Department of Finance.
- “Cash” refers to the monies available in the State Treasury. The State Controller’s Office ensures sufficient cash is available to meet the State’s obligations.



Cash Flow

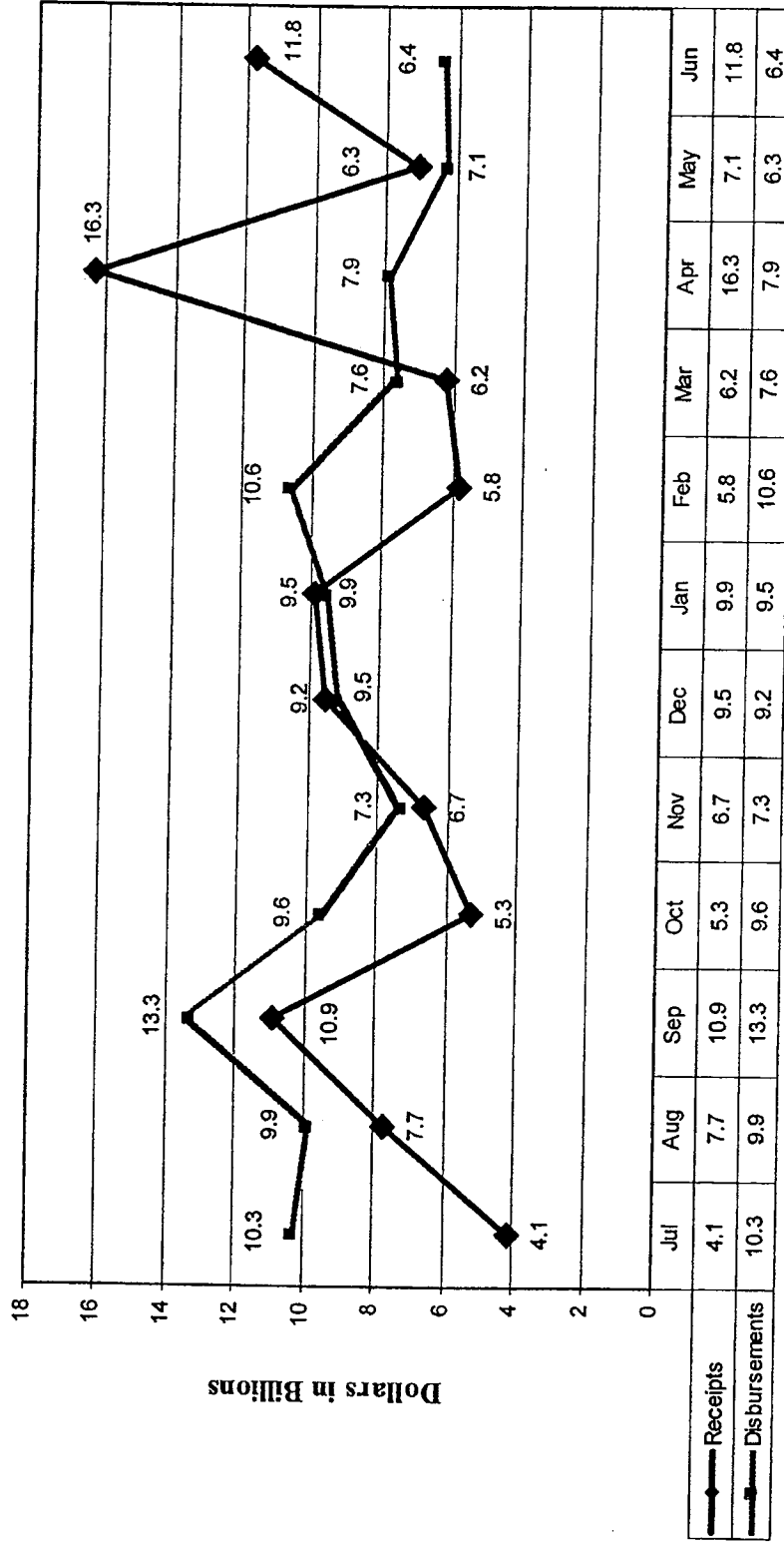
- Differences in the timing of revenue inflows (receipts) and expenditure outflows (disbursements) may cause cash gaps.
- Absent a positive cash balance, borrowing is used to bridge the cash gaps between receipts and disbursements.
- A minimum of \$2.5 billion of unused borrowable resources is maintained as a minimum prudent cushion.



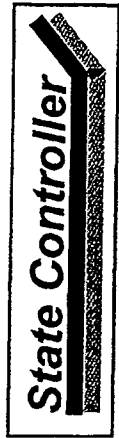
Cash Flow

Receipts/Disbursements

ESTIMATED 2007-08 FISCAL YEAR CASH FLOW
GENERAL FUND



Source: 07/08 Budget Act



Cash Flow

Disbursements

A	B	C	D	E	F	G	H	I	J	K	L	M	N
2	ESTIMATED 2007-08 FISCAL YEAR CASHFLOW												
3	GENERAL FUND												
4	(Dollars in Millions)												
5		Actual	Actual										
6	2007-08 FISCAL CASHFLOW	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
7	BEGINNING CASH BALANCE	\$2,462	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	DISBURSEMENTS:												
9	State Operations:												
10	University of California	\$353	\$230	\$308	\$302	\$309	\$314	\$274	\$256	\$319	\$324	\$130	\$153
11	Debt Service	16	442	62	349	207	275	49	662	372	228	175	199
12	Other State Operations	2,022	1,762	2,834	1,514	1,599	1,534	1,641	1,342	1,302	1,759	1,550	1,924
13	Social Services	1,095	1,159	626	1,087	786	662	972	693	595	760	382	338
14	Medi-Cal Assistance for DHCS	1,390	1,275	1,114	1,209	924	1,600	1,140	1,006	1,564	1,206	955	815
15	Other Health Care Services	-4	76	-35	11	9	18	9	15	19	6	10	27
16	Schools	3,943	4,040	6,124	3,610	2,798	3,938	3,672	6,026	2,745	2,855	2,780	1,114
17	Teachers' Retirement	747	0	500	125	0	0	125	0	0	125	0	1
18	Transfer to Special Fund for Economic Uncertainties	0	0	0	0	0	0	965	0	0	0	0	1,623
19	Transfer to Budget Stabilization Account	0	0	1,023	0	0	0	0	0	0	0	0	965
20	Other	700	935	730	1,418	619	858	744	572	677	723	379	1,862
21	TOTAL, Disbursements	\$10,262	\$9,919	\$13,286	\$9,625	\$7,251	\$9,199	\$9,493	\$10,572	\$7,593	\$7,986	\$6,361	\$6,433
22													\$107,979

2007-08 at 2007 Budget Act



Cash Management of the State

Types of Borrowing

Internal Borrowing:

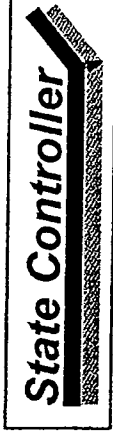
- By law:
 - The General Fund can only borrow from special funds on a short-term basis as needed.
 - The General Fund cannot borrow from certain funds, such as the Public Employees' Retirement System Fund, State Teachers' Retirement System Fund, and Local Agency Investment Fund.
 - The borrowing cannot interfere with the operations of the special funds.
- The current estimated borrowable amount stands at \$15.3 billion, as presented to the Pooled Money Investment Board in April 2008. This amount is updated quarterly.



Types of Borrowing

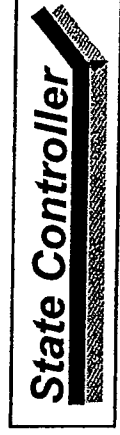
External Borrowing:

- Revenue Anticipation Notes (RANs) are short-term borrowing instruments used to smooth cash flow due to irregular patterns of receipts and disbursements and must be repaid by the end of the fiscal year.
- Revenue Anticipation Warrants (RAWs) are borrowing instruments used to address cash flow problems that may span a period of two fiscal years and may be issued with no State budget in place.



Other Cash Instruments

- Registered Warrants (IOUs) are interest bearing instruments issued to replace regular warrants when there is insufficient cash in the General Fund to pay the State's obligations. IOUs are utilized when short term borrowing options are exhausted.

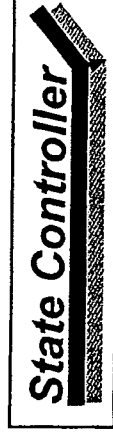


Comparison of External Borrowing Instruments

	RANs	RAWs	Registered Warrants (IOUs)
<i>Must a budget be enacted prior to issuance?</i>	Yes	No	No
<i>Generally how much lead time is required to issue?</i>	4 - 6 weeks	2 - 4 months	Within 2 weeks
<i>When is repayment required?</i>	Within the fiscal year of issuance	By the end of the next fiscal year	Subject to cash availability
<i>What is the frequency of issuance in the past 25 years?</i>	24	6	1

Issues and Considerations

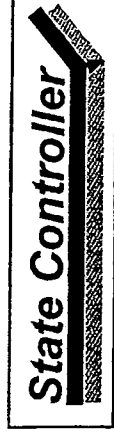
- RANs – An enacted budget normally eliminates the need for credit enhancement (a third party guarantee of repayment).
- RAWs – Issuance costs may be higher than a RAN due to credit enhancement requirements.
- IOUs – Federal and State statutes prevent issuance for a majority of payments (debt service, education, payroll and Medi-Cal).
- Credit Rating Impact – Underlying budget and economic circumstances surrounding the issuance of a RAW (e.g. failure to adopt a timely budget and structural deficit) can be negative indicators to the credit rating agencies.



Problems in Credit Markets

- Distress in the mortgage industry continues to adversely impact the credit/liquidity markets, and will until the economic environment improves.
- Financial institutions already have written off or taken losses exceeding \$275 billion. No one knows when the sub-prime mortgage problem will end or to what extent it impacts other sectors of the economy.

Bottom line: Credit enhancements for a RAW in 2008-09 will be extremely difficult and expensive to secure.



Previous RAN and RAW Issues

Fiscal Year	RAN Amount (\$ billions)	RAW Amount (\$ billions)
1993-94	2.0	2.0
1994-95	3.0	7.2
1995-96	2.0	
1996-97	3.0	
1997-98	3.0	
1998-99	1.7	
1999-00	1.0	
2000-01		
2001-02	5.7	7.5
2002-03	12.5	10.9
2003-04	1.8	
2004-05	6.0	
2005-06	3.0	
2006-07	1.5	
2007-08	7.0	



Cash Management of the State

Cost of RAW Issues

Revenue Anticipation Warrants

	Year				
	1936	1982	1992	1993	2003
Principal Amount (\$ Billions)	0.121	0.400	0.475	2.000	10.965
Interest	\$ 1,710,650.27	\$ 6,764,526.67	\$ 765,277.78	\$ 13,031,042.97	\$ 70,662,739.73
Premium			(173,000.00)	(448,602.74)	(13,721,000.00)
Discount		20,000,000.00			
FWPA Fees and Expenses					
Additional FWPA Fees Downgrade				30,520,730.91	15,355,000.00
Executive Orders					2,553,000.00
Cost of Issuance			225,097.76	227,538.34	2,000,000.00
Total Cost	\$ 1,710,650.27	\$ 26,764,526.67	\$ 817,375.54	\$ 12,809,978.57	\$ 74,849,739.73
					\$ 244,520,242.40



Cash Management of the State

CSAC CONFERENCE HIGHLIGHTS

Action Items

Parole Realignment. The CSAC Board of Directors approved the recommendation of the Administration of Justice Policy Committee to oppose the Legislative Analyst's Office (LAO) Parole Realignment proposal. In addition, the CSAC Board of Directors approved recommendations for CSAC to advance other options on Parole Realignment that include additional funding for adult probation services and the movement of low risk offenders to community based programs. CSAC indicates that there are very few resources and programs available at the local level to address the service needs of adult probationers.

CSAC also expressed a willingness to continue to participate in future Parole Realignment discussions. In addition, technical revisions to CSAC's Corrections Reform County Policy Principles and Guidelines were approved to reflect references to CSAC's Realignment Principles, adding a principle related to completing reentry plans prior to a probationer's transition back into the community, and ensuring proposals adequately address impacts on local criminal justice systems.

Sex Offender Management. The CSAC Board of Directors approved the recommendation of the Administration of Justice Policy Committee to adopt a policy on sex offender management. The policy considers emerging best practices and outlines the role of counties in managing the sex offender population. The document was a collaborative effort of a Statewide working group of county sheriffs, supervisors, probation officers, and other representatives of county government. Specifically, the fundamental principles and policies included: the need for a sex offender management policy that contains restriction clauses that focus on an offender's movements rather than their residence; coordination of sex offender management among counties; the need for community education; use of compatible technologies to allow monitoring throughout the State; the need for stable and sufficient funding by the State to implement an adequate management system; and a reexamination of sex offender management policies at state and local government levels in order to reflect the most current laws and decisions of the courts.

Statewide 2-1-1 System. The CSAC Board of Directors approved a recommendation from San Diego County to support Statewide coverage of 2-1-1 systems to provide community and non-emergency disaster recovery information and referral services. In addition to the day-to-day benefits of 2-1-1 in providing residents with information and referrals on health and human service programs, the San Diego County 2-1-1 system played a critical role in disseminating information to residents on mandatory evacuation orders, shelter locations, road closures, relief and recovery resources, and donation and volunteer opportunities during the major wildfires of 2007.

Approximately 91 percent of California is projected to have 2-1-1 access by 2009. The goal included as part of the recommendation is for 100 percent coverage throughout the

State by 2010. Funding remains a critical issue, especially for smaller counties with little or no call center infrastructure. 2-1-1 California continues to pursue State and Federal funds for pilot projects designed to acquire the necessary infrastructure. Several implementation strategies were discussed, including central call centers that may serve multiple counties.

SAFETEA-LU Reauthorization Priorities and Principles. The CSAC Board of Directors approved the recommendation of the Housing, Land Use, and Transportation Policy Committee to adopt draft priorities and principles for use in advocacy in upcoming discussions related to the reauthorization of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). SAFETEA-LU authorizes Federal surface transportation programs for highways, highway safety, and transit for the 5-year period 2005-2009.

The priorities and principles include the need to: streamline the approach to the allocation of Federal funds; protect and enhance transportation revenues and expenditures; protect previous and future investments through system maintenance and preservation; increase safety on existing transportation systems; improve environmental stewardship and address climate change concerns; streamline regulatory and project delivery processes; increase State, regional, and local flexibility to respond to needs; provide assistance for data collection; and provide an incentive program for agencies that exceed expectations.

Item of Interest

County Mental Health Plans. The Health and Human Services Policy Committee provided updates of several health and mental health topics. One topic of interest to the County dealt with county mental health plans for Medi-Cal specialty mental health services. The CSAC staff report to the Committee outlined the responsibilities of county mental health plans, difficulties encountered by counties in serving as the managed care plan for specialty mental health services, State General Fund and Realignment revenue issues, effects of medical inflation and increasing prescription drug costs, potential impacts of the State budget deficit, Federal rule changes, and State Department of Mental Health issues. As a result of the increasing difficulties to provide the services contemplated under the mental health plan, the report noted that three counties, including Glenn, Shasta, and Riverside, are contemplating refusing to serve as the mental health plan for their respective counties.